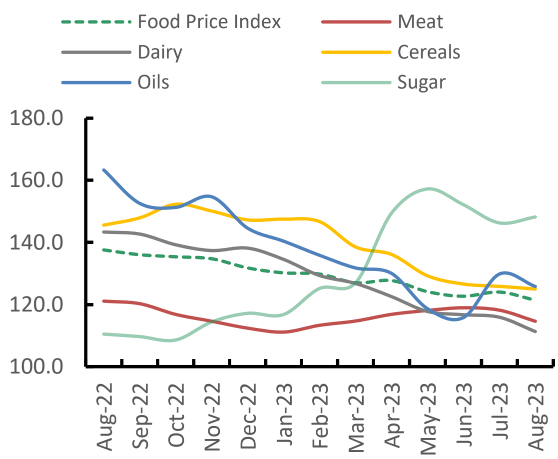
MERISTEM

Macroeconomic Update

Inflation Expectation | August 2023

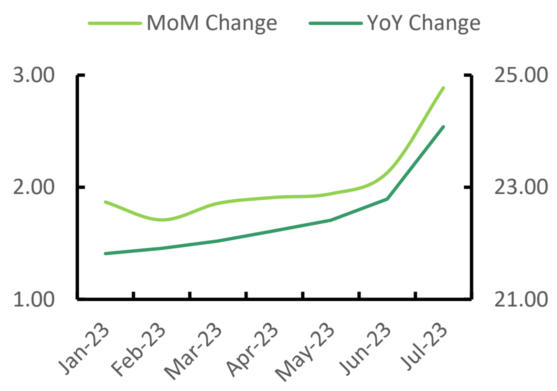
"Headline inflation for the month of August 2023 is expected at 25.37% YoY (vs 24.08% YoY reported in July 2023)."

Chart 1: Global Food Prices Indices



Source: FAO, Meristem Research

Chart 2: Headline Inflation Rate (Jan – July 2023)



Source: NBS, Meristem Research

Advanced Economies: Climbing Oil Prices to Fuel Global Inflation Levels

Due to the high base effect and monetary policy authorities' action, headline inflation across major economies declined in the first half of 2023. Recently, however, increasing oil prices and housing costs across major economies stoke concerns about a discontinuance in the headline inflation decline. Particularly, increasing global oil demand (boosted by strong summer air travelling) and a plunge in oil supply levels were significant activities that occurred in the oil market in August which led to a rebound in energy prices - (Brent crude price ticked to USD86.20/bbl in August 2023 from USD80.10/bbl in July 2023). Hence, halting its 12 consecutive months of decline (buoyed by high base effect), headline inflation in the United States increased to 3.20% in July (from 3.00% the previous month). Inflation in the Eurozone for August 2023 also remained unchanged at 5.30%, halting its three-consecutive months of decline.

Monetary authorities thus remain committed to ensuring price stability and reducing inflation rate to their target ranges as they have maintained their rate hike stance so far. While the global economy has remained largely resilient to these rate hikes, we see the possibility of the rate hike having more impact in the second half of the year. Firstly, fresh off the summer season, the labour force participation rate in the US increased markedly, leading unemployment rate in the US up to 3.8% (from 3.50% in July 2023), – its highest level since Feb 2022. The rate, which remained unchanged in the Eurozone at 6.40% in July is also expected to increase in August. Secondly, PMI readings for August suggest a reduction in economic activities from its July level in US (47.90pts vs 49.00pts), Eurozone (46.70pts vs 48.60pts) and United Kingdom (43.00pts vs 45.30pts) indicating output decline and deterioration in operating conditions.

Looking ahead, we anticipate the voluntary extension of oil production cuts by Saudi Arabia and Russia to lead oil prices further upwards posing significant upside risk to global inflation. The duo countries announced their intention to extend their oil supply cuts (1.00mbpd for Saudi Arabia and 0.3mbpd for Russia) throughout the remainder of 2023, leading to an upsurge in Brent Crude price to USD90.49/bbl as of September 7 – highest level since Nov 2022. However, given that monetary policy remains restrictive and economic growth indicators largely suggest slower output growth we expect the resultant decline in consumer spending should help to tame inflation to an extent.

Nigeria: Local Inflation to Continue its Upward Course

According to the Food and Agricultural Organization (FAO), the global food commodity price index fell by -2.11% MoM and -11.77% YoY to 121.39pts in August 2023 driven by the decline in price of vegetable oils, dairy products, meat and cereals. Contrary to this, key food prices in the domestic economy are expected to remain elevated in August 2023, based on our perception of market prices. We anticipate a continued surge in the price of rice and oils, hinged on the partial ban on rice exports in India which has had substantial impact on global rice supply. We also expect that higher logistic costs and poor road networks in the country would further impact food prices. Thus, we expect food inflation to shoot up by 173bps to 28.71% for August 2023

Additionally, the headline index is expected to experience an uptick due to higher global energy and premium motor spirit (PMS) pump prices. Similarly, the lingering challenges in sourcing foreign exchange (FX) and depreciating exchange rate are also expected to drive up the prices of import dependent item like Petroleum products, motor vehicles, clothing and fabrics etc., that typically impact the core index movement.

Overall, we expect the headline inflation to increase by 129bps to 25.37% (vs. 24.08% YoY in July 2023).

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